TRIAD

ANNUAL REPORT · NINETEEN SIXTY-EIGHT

BOARD OF DIRECTORS

C. R. T. Cunningham	Vice-President and Director Cochran, Murray & Co. Limited	Toronto
A. F. Down, OBE, MC	A Deputy Chairman and a Managing Director of The British Petroleum Company Limited	London, England
Peter Kilburn	President Greenshields, Incorporated	Montreal
F. A. McKinnon	Vice-President and General Manager Triad Oil Co. Ltd.	Calgary
D. F. Mitchell	President The British Petroleum Company of Canada Limited and BP Canada Limited	Montreal
J. M. Pattinson, CBE	Formerly a Deputy Chairman and a Managing Director of The British Petroleum Company Limited, London, England – now retired	London, England
M. M. Pennell	Managing Director BP Exploration Company Limited	London, England
J. H. Porter	President Triad Oil Co. Ltd.	Calgary
C. R. Tanner	Director Tanner Bros. Limited	Vancouver
E. H. Tanner, OBE	Director Tanner Bros. Limited	Calgary

OFFICERS

Chairman of the Board	D. F. Mitchell
President	J. H. Porter
Vice-President and General Manager	F. A. McKinnon
Vice-President and Exploration Manager	E. W. Best
Secretary-Treasurer and Administration Manager	J. I. Rawlinson
Assistant Secretary-Treasurer and Controller	K. T. Allison

REPORT TO THE SHAREHOLDERS:

The outstanding feature of the year's activities was the discovery of wet sour gas at Fox Creek, Alberta. Subsequent drilling by Triad and others has confirmed that this is a very large reserve of natural gas, rich in liquids and sulphur. Development involves installation of a gas cycling project and, while some delays have been encountered through problems associated with the impact of such a large volume of liquids on the market for Alberta conventional crude oil, it is anticipated that these will be resolved and that production will commence in 1970. This project should make a significant contribution to Triad's earnings.

Joint exploration arrangements with The British Petroleum Group continue to enhance results. In addition to the Fox Creek discovery, two successful pinnacle reef wells were drilled, and at Chauvin, in east central Alberta, a new low gravity oil pool was discovered. Potential production in that area has justified construction by Triad of a pipeline to connect with the Interprovincial trunk system at Hardisty.

The Company's spread of exploratory land holdings has been further improved by the addition of 12 million gross acres off the east coast of Newfoundland and of permits and option agreements in the Northwest Territories. Both areas will be the scene of considerable industry activity during the next few years.

Gross revenue for 1968 totalled \$19,104,595, compared with \$18,820,972 in the previous year. This modest increase, coupled with reduced loan interest costs and lower exploration write-offs, resulted in a 28% improvement in net earnings which this year amounted to \$2,932,356.

No appreciable change is anticipated in gross revenue or net income for 1969. Crude oil production should be at the same level as 1968; there will be a small increase in gas sales. Despite a recent softening of prices in the sulphur market, it is thought that income from sulphur sales in 1969 will be approximately the same as for the year under review. Exploration will continue to be conducted on a joint basis with BP. Triad will contribute \$3.5 million to the joint program this year.

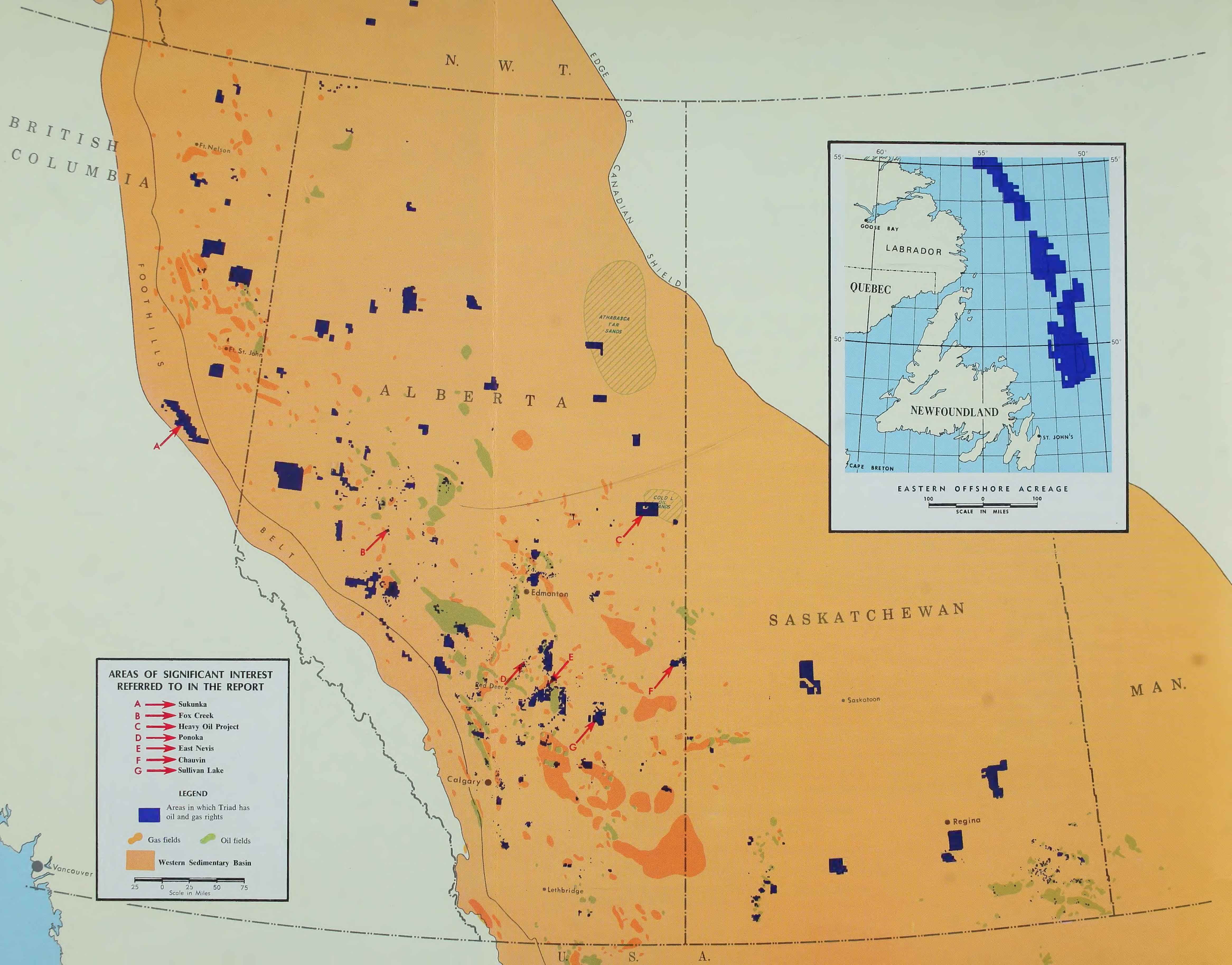
The immediate prospects for the petroleum industry in Western Canada continue to look attractive with production likely to increase at least for the next three years. Beyond that date the industry must anticipate north Alaskan crude reaching U.S. west coast markets in 1972 or 1973, and possibly other areas of the U.S. in later years. In addition, there is the prospect of oil being found in the Canadian north, where exploration activity has recently been accelerated by the Prudhoe Bay discovery. These may also be looking for outlets. Depending on quantities, the effect of crude from North Slope Alaska entering U.S. markets could be to slow down growth in Canadian production — if so, it would appear to be a temporary situation only and could be relieved if the U.S. and Canadian authorities concluded that a broader continental approach to production and marketing in North America was in the interests of both nations. In the longer term the growing demands of North America still seem likely to be met increasingly from Canadian sources.

It is a pleasure for the Directors to express their appreciation for the efforts, enthusiasm and continuing support of all personnel during the past year.

Submitted on behalf of the Board,

J. H. PORTER, *President*

Calgary, Alberta
March 14, 1969



N. W. T.
EDGE OF CANADIAN SHIELD
BRITISH COLUMBIA
FOOTHILLS BELT
Ft. Nelson
Ft. St. John
ALBERTA
ATHABASCA TAR SANDS
COLD L. OIL SANDS
Edmonton
Red Deer
Calgary
Lethbridge
Vancouver
SASKATCHEWAN
Saskatoon
Regina
MAN.
U. S. A.
A
B
C
D
E
F
G
EASTERN OFFSHORE ACREAGE
GOOSE BAY
LABRADOR
QUEBEC
NEWFOUNDLAND
ST. JOHN'S
CAPE BRETON
60°
55°
50°
100
0
100
SCALE IN MILES
AREAS OF SIGNIFICANT INTEREST REFERRED TO IN THE REPORT
A Sukunka
B Fox Creek
C Heavy Oil Project
D Ponoka
E East Nevis
F Chauvin
G Sullivan Lake
LEGEND
Areas in which Triad has oil and gas rights
Gas fields
Oil fields
Western Sedimentary Basin
25
0
25
50
75
Scale in Miles

REVIEW OF OPERATIONS

EXPLORATION AND DEVELOPMENT

An active exploration and development program in 1968 resulted in a substantial increase in the Company's net reserves of crude oil, gas liquids and sulphur. Exploratory discoveries alone found reserves which significantly exceeded production during the year.

As in 1967, the exploration program was carried out in close association with The British Petroleum Group. The successful results are in part attributable to the increased exposure to exploration opportunities made possible by this association.

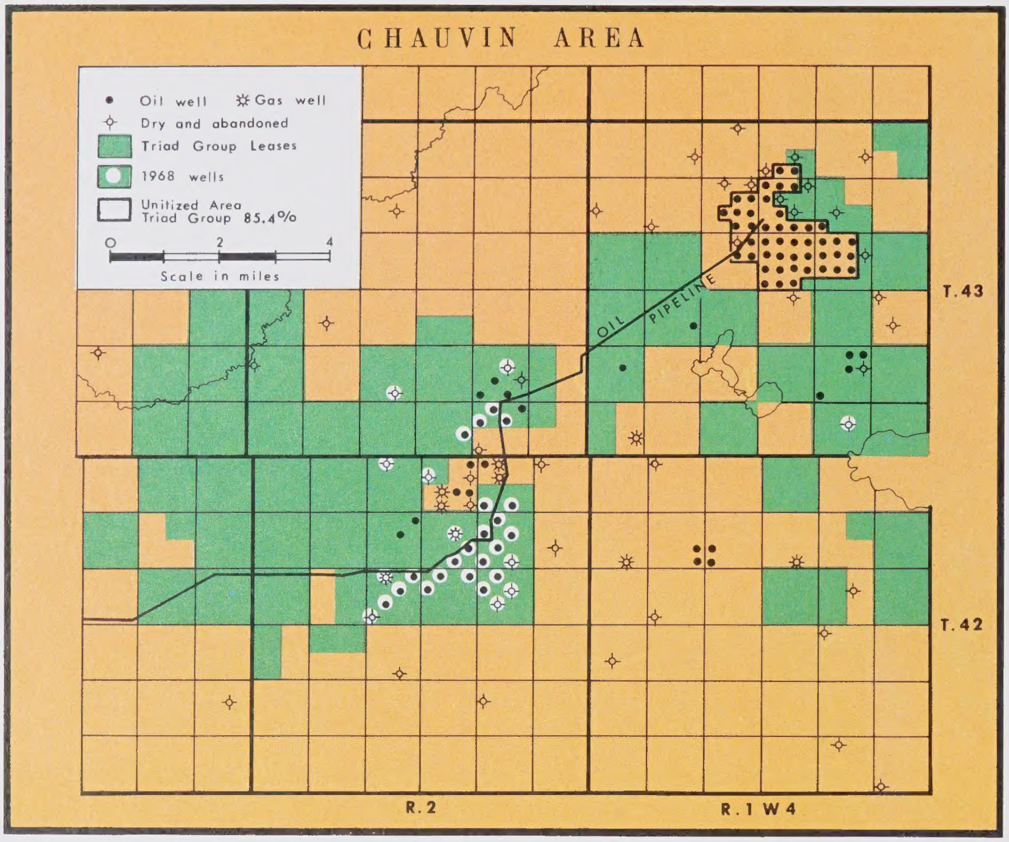
During the year considerable effort was devoted to securing better geological and geographical land representation. The result was a fourfold increase in gross and net land holdings, almost entirely due to acquisition of large permit blocks in offshore East Coast areas. Holdings in Alberta were increased by 320,000 gross acres (188,000 net) and in the Northwest Territories by 92,000 acres (46,000 net). Subsequent to the year end a seismic option was negotiated on a further 1.1 million acres in the Northwest Territories. These additions assist in meeting the Company's aim of securing larger and more diversified acreage blocks for primary exploration.

Exploratory successes amounted to two oil and eight gas discoveries out of a total of 34 wells, excluding farmouts, in which Triad participated. In addition, 42 development wells were drilled, of which 29 were oil wells and 5 were gas wells.

Direct exploration was supplemented by an active farmout program which led to 27 exploratory wells being drilled on Triad interest acreage. Further evaluation was also obtained by 16 wells drilled on adjacent lands under option agreements at no cost to Triad. The farmout program led to four marginal oil wells and two marginal gas wells in which Triad retains a royalty interest.

EXPLORATION HIGHLIGHTS

Location	Nature	Producing Formation	Depth feet	Net Pay feet
Fox Creek	Wet sour gas	Beaverhill Lake	11,000	86
South Chauvin	Oil	Sparky	2,200	20
(Dual Zone)	Oil	Lloydminster	2,250	9
Ponoka	Oil	D3	6,350	60
East Nevis	Gas	D3	5,500	83
Sullivan Lake	Gas	Viking	3,200	10



Results of the 1968 drilling program are as follows (numbers are gross wells):

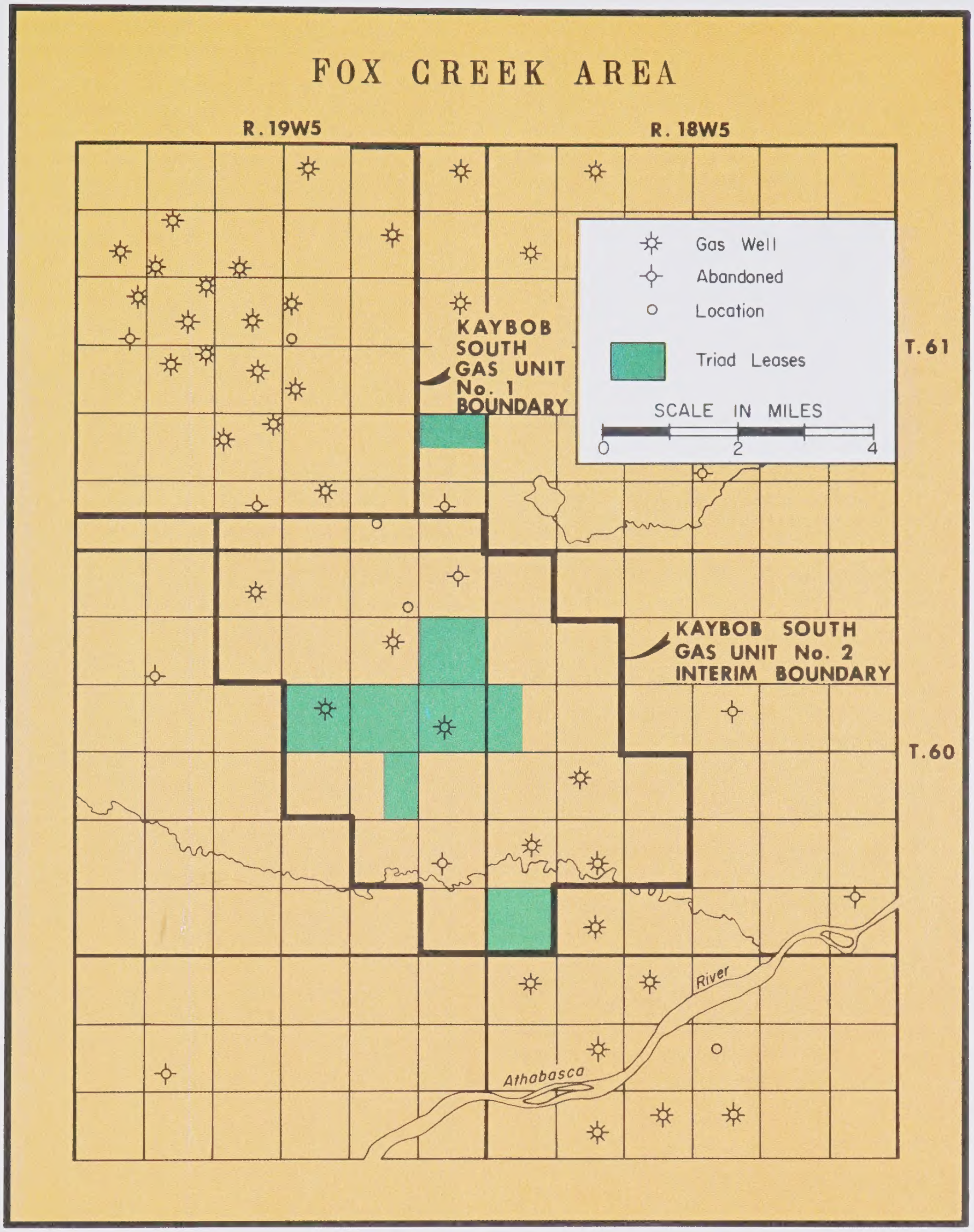
Exploratory Wells	Oil	Gas	Dry	Other*
Working interest	2	8	24	–
Farmout (working interest retained)	–	–	8	–
Farmout (royalty retained)	4	2	13	–
Option wells – no direct interest	2	–	14	–
Development Wells				
Working interest	29	5	4	4
Royalty interest	7	1	5	–

*Water injection wells

The area of the Company's main exploration success was Fox Creek, Alberta, 140 miles northwest of Edmonton, where Triad and partners participated early in 1968 in an important wet sour gas discovery. Development is now proceeding and construction of a gas cycling plant has commenced, capable of daily production of 1,050 long tons of sulphur and 12,500 barrels of condensate. Triad's interim interest in the project is approximately 14%, but the final interest will be dependent upon the results of additional development drilling. While the plant is scheduled to go on stream early in 1970, the details of the project have yet to be determined since the initial application to the Alberta Conservation Board was not approved and a new application is being processed.

The Chauvin area, in east central Alberta, continues to prove prospective for low-gravity oil (19° - 22° API) in Cretaceous sands, and in 1968 a new pool was discovered by Triad and its partners some 2.5 miles south of the 1967 discovery. The new well found 20 feet of net pay in the Sparky formation and 9 feet of net pay in the Lloydminster formation. Extension of this discovery accounted for much of the Company's development drilling during the year. In the Main Chauvin Unit where Triad has an 85.4% interest, the waterflood has been expanded to a full-scale project. Pressure maintenance will also be installed in the new pools in 1969.

The potential increase in oil production at Chauvin has warranted construction by Triad of a wholly-owned gathering system and eight-inch



pipeline linking the area to the oil transmission trunk line at Hardisty. While the line's capacity of 5,200 barrels a day is not expected to be reached before 1972, throughput in 1969 is likely to average 1,500 barrels a day.

Also in east central Alberta geophysical work and drilling continued in the D-3 pinnacle reef play begun in 1967. Two more discoveries were made, one at Ponoka finding 60 feet of net oil pay, and the other, an extension at East Nevis, finding 83 feet of net dry gas. Both have good producing characteristics. Further testing of the Triad group's 190,000 acres is continuing, both directly and by farmouts.

Exploration continued at Sullivan Lake, central Alberta, following a 1967 dry gas discovery in the Cretaceous. Additional acreage was purchased and four exploratory wells drilled, three of which were successful gas wells.

In the Company's heavy oil experimental project at Cold Lake, Alberta, research was conducted on an expanded scale in 1968 following earlier more limited evaluation. The program is continuing in 1969.

Four years ago, at Sukunka, in the British Columbia foothills, Triad and BP made a significant Triassic sour gas discovery, which was

followed up by two stepouts, both of which were abandoned. Now three companies have committed jointly to assume rental obligations, conduct seismic surveys, and drill at least one well on the 179,000 acres of leases held 50% by Triad and 50% by BP. The farmout agreement gives the farmees options to drill up to three wells to earn a 50% interest in the area. The full program necessary to earn such interest has been estimated to cost some $3.5 million.

Among other exploration projects currently developing, three are in widely scattered areas of considerable potential interest to shareholders. Offshore Newfoundland and the Labrador, Triad and BP have filed jointly on 12.1 million acres of federal permits in an area where water depth ranges from 600 to 900 feet. Adjacent permits have been acquired subsequently by major companies and others. The East Coast offshore area is attracting increasing attention and at least two companies will begin multi-well programs in 1969 and 1970. Triad plans to initiate geophysical work by 1970.

In the Northwest Territories, Triad in equal partnership with BP is conducting seismic evaluation of permits comprising 1.1 million acres northwest of Norman Wells. The acreage is under option from Atlantic-Richfield on terms which allow Triad to drill up to six wells to earn interests in one or more of six blocks. Drilling will not be undertaken before 1970.

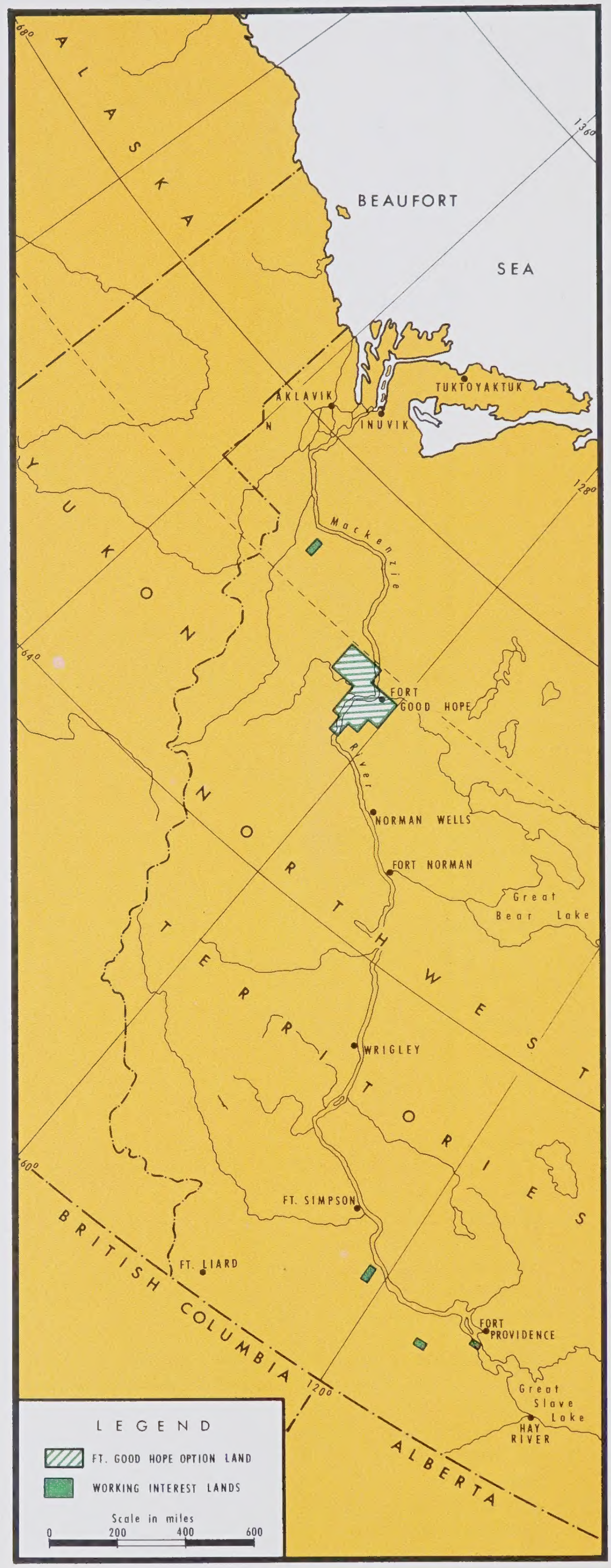
In the Arctic Islands, through its 34.75% share ownership of British Columbia Oil Lands, Triad has an indirect interest in the Drake Point well being drilled this year by Panarctic Oils Ltd. on Melville Island. British Columbia Oil Lands has a 14% working interest in 1,526,214 acres committed to Panarctic. The interest will reduce to 4.77% on completion by Panarctic of its $20 million program, which will include one further well on or in the vicinity of the Company's holdings.

PRODUCTION AND SALES

Net production of crude oil and natural gas liquids has been maintained at an average 16,059 barrels per day, approximately the same level as the preceding year. Sales of natural gas increased 24.5% from 41 million cubic feet per day to 51 million cubic feet per day, and sales of sulphur decreased slightly from 66,226 tons in 1967 to 64,432 tons in 1968.

Crude oil production was again adversely affected by marketing conditions for Saskatchewan oil, which restricted production from Triad's wells in southwest Saskatchewan to about 85% of capacity. This restriction was offset by a general increase in Alberta production including that obtained from the development of the South

N. W. T. - YUKON ACREAGE



Chauvin area, and also from improvements in production techniques at Beatton River. The increase in gas sales is primarily from the Edson field which accounts for more than half the Company's total gas production. The contract under which Edson gas is sold provides for a build-up in volume over a five-year period. A further increase in 1969 will bring the volume to its full level.

The reduced level of gas and sulphur sales from Okotoks was due largely to a period of plant shutdown for maintenance. Sulphur sales from all other areas increased and production was initiated from the East Crossfield unit.

FINANCIAL

Continuing the trend of the past several years, net earnings increased to $2,932,356 in 1968 compared with $2,290,355 in 1967. The 28% gain was mainly due to reductions in interest charges and in certain non-cash items.

Production revenue amounted to $18,885,182. Increased revenue obtained from natural gas sales was partly offset by lower prices received from sulphur. Sources of production revenue in 1968 were:

	1968 (thousands of dollars)		1967 (thousands of dollars)	
Crude oil and natural gas liquids	$13,882	74%	$13,995	75%
Natural gas	2,734	14	2,140	11
Sulphur	2,269	12	2,536	14
	$18,885	100%	$18,671	100%

Cash flow from operations of $11,118,716 was sufficient to meet all exploration and development expenses as well as provide funds to reduce long-term debt by $6,478,824. A similar reduction in debt was achieved in 1967.

Investment holdings in Northern and Central Gas Corporation Ltd. were disposed of during the year for a total of $1,239,613, realizing a profit of $168,035, which has been included in investment income.

Triad's portion of the capital funds required for construction of the South Kaybob gas cycling plant will be met by borrowing some $5 million. Additional borrowing in the amount of $1,025,000 has also been arranged for construction of the Chauvin oil pipeline. Of this amount $750,000 was drawn down in 1968.

No provision has been made in the accounts for income taxes deferred as a result of claiming for tax purposes drilling, exploration and lease acquisition costs in excess of the related charges to earnings. This decision conforms with general practice in the oil and gas industry in Canada and elsewhere.

SALES OF CRUDE OIL AND NATURAL GAS LIQUIDS – NET

DAILY AVERAGE BARRELS

	1968		1967	
Alberta				
Redwater	1,513		1,602	
Inverness	1,501		1,467	
Pembina	1,253		1,198	
Chauvin	821		689	
Sturgeon Lake South	721		761	
Swan Hills	710		657	
Harmattan-Elkton	381		325	
Other areas	1,473		1,480	
Sub total	8,373	52.1%	8,179	50.9%
British Columbia				
Beatton River	1,247		994	
Other areas	16		14	
Sub total	1,263	7.9%	1.008	6.3%
Saskatchewan				
Dollard	1,888		2,250	
Steelman	977		1,073	
Weyburn	952		1,024	
Instow	633		710	
Other areas	1,973		1,824	
Sub total	6,423	40.0%	6,881	42.8%
Total All Areas	16,059	100.0%	16,068	100.0%

SALES OF NATURAL GAS - NET

DAILY AVERAGE MMCF

	1968	1967
Edson	27.9	21.3
Okotoks	3.8	5.4
Cessford	4.5	4.0
East Calgary	3.4	2.5
Ghost Pine	2.7	–
Other	8.7	7.7
	51.0	40.9

SALES OF SULPHUR - NET

ANNUAL LONG TONS

	1968	1967
Okotoks	48,070	53,293
East Calgary	6,780	6,837
Edson	5,679	4,750
East Crossfield	2,377	–
Other areas	1,526	1,346
	64,432	66,226

RESERVES

Discoveries in 1968 accounted for a major part of the Company's increase in net reserves of hydrocarbons. Additions to existing fields, and revisions based on reservoir performance in old fields accounted for the remainder.

The net reserve increase was substantially more than production during the year.

Reserve figures shown in the accompanying table are estimates of proven reserves as calculated by the Company's engineers.

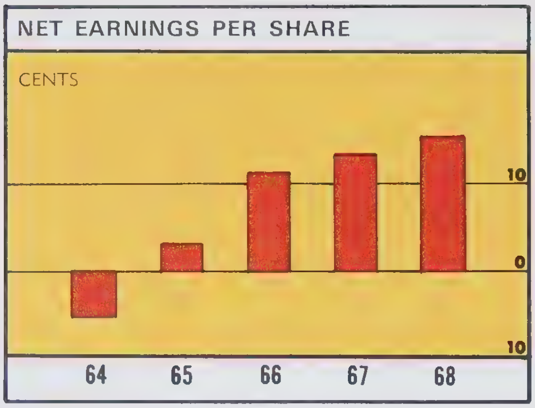
LOCATION OF RESERVES

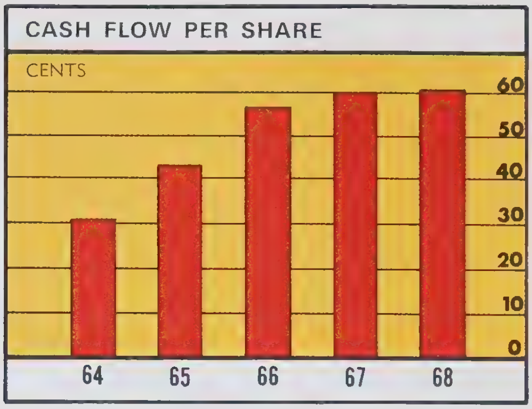
	Crude Oil and Liquids (million bbls.)	Natural Gas (billion cu. ft.)	Sulphur (long tons)
Alberta	79.2	560	1,543,100
British Columbia	3.3	37	122,500
Saskatchewan	18.2	3	–
At end 1968	**100.7**	**600**	**1,665,600**
At end 1967	91.0	610	1,442,000

LAND SUMMARY

	December 31, 1967 Gross	December 31, 1967 Net	Acquisitions Gross	Acquisitions Net	Surrenders Gross	Surrenders Net	December 31, 1968 Gross	December 31, 1968 Net
Leases								
Alberta . . .	1,303,492	526,207	132,834	69,440	169,273	74,816	**1,267,053**	**520,831**
British Columbia	574,538	350,099	1,333	2,833	34,137	19,091	**541,734**	**333,841**
Saskatchewan .	231,913	84,047	15,601	4,910	89,608	24,064	**157,906**	**64,893**
Ontario . . .	41,528	3,134	—	—	4,202	717	**37,326**	**2,417**
Total	2,151,471	963,487	149,768	77,183	297,220	118,688	**2,004,019**	**921,982**
Reservations and Permits								
Alberta . . .	867,004	620,539	362,089	217,608	44,162	29,256	**1,184,931**	**808,891**
British Columbia	164,065	54,239	—	—	13,530	1,691	**150,535**	**52,548**
Saskatchewan .	489,658	223,703	—	—	98,560	29,568	**391,098**	**194,135**
Northwest Territories .	31,162	31,162	92,434	46,217	—	—	**123,596**	**77,379**
East Coast . .	—	—	12,113,736	6,056,868	—	—	**12,113,736**	**6,056,868**
Total	1,551,889	929,643	12,568,259	6,320,693	156,252	60,515	**13,963,896**	**7,189,821**
Major Options								
Alberta . . .	114,867	15,400	24,466	9,600	28,538	5,077	**110,795**	**19,923**
Saskatchewan .	127,720	28,300	—	—	127,720	28,300	**—**	**—**
Total	242,587	43,700	24,466	9,600	156,258	33,377	**110,795**	**19,923**
Total	3,945,947	1,936,830	12,742,493	6,407,476	609,730	212,580	**16,078,710**	**8,131,726**

Construction of Triad's Chauvin-Hardisty pipeline

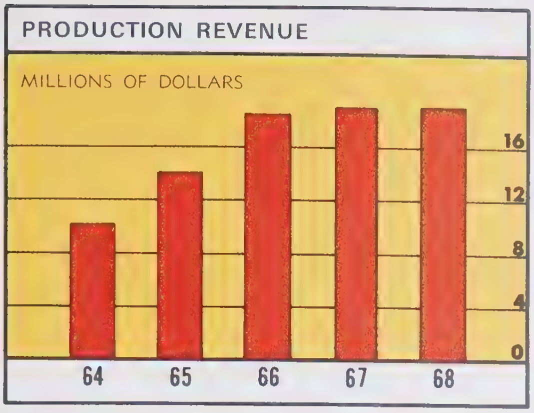


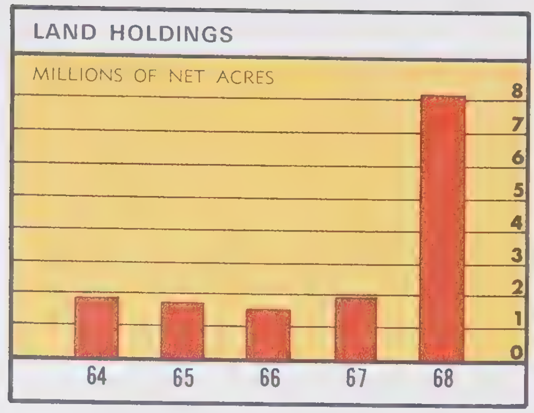


TEN YEAR STATISTICAL SUMMARY . . . (including subsidiary compani

FINANCIAL	1968	1967
Gross Revenue	**$19,105,000**	18,821,000
Operating Expense	**$ 3,521,000**	3,279,000
General and Administrative Expense	**$ 819,000**	883,000
Interest Expense	**$ 3,646,000**	3,967,000
Cash Flow	**$11,119,000**	10,692,000
Per share	**62c**	60c
Net Earnings (Loss)	**$ 2,932,000**	2,290,000
Per share	**16c**	13c
Long Term Debt	**$57,485,000**	63,964,000
Working Capital	**$(1,478,000)**	(2,308,000)
Expenditures on exploration	**$ 2,296,000**	3,134,000
Expenditures on development including plant and equipment	**$ 2,856,000**	2,467,000
Purchases of shares in, or assets of other companies	**$ —**	2,486,000
Shareholders' Equity	**$28,225,000**	25,162,000
Number of shares outstanding	**17,791,029**	17,791,029
OPERATING		
Net sales – oil and liquids (bbls.)	**5,878,000**	5,864,931
– natural gas (mmcf)	**18,643**	14,937
– sulphur (long tons)	**64,432**	66,226
Average selling prices		
– oil and liquids (per bbl.)	**$ 2.36**	2.39
– natural gas (per mcf)	**15c**	14c
– sulphur (per long ton)	**$ 35.20**	38.29
Land Holdings		
Gross acres	**16,078,710**	3,945,947
Net acres	**8,131,726**	1,936,158
Number of employees	**123**	120

Certain adjustments have been made to previously published figures to conform to current presentation.





from date of aquisition)

1966	1965	1964	1963	1962	1961	1960	1959
18,456,000	14,523,000	10,470,000	6,850,000	3,977,000	3,420,000	2,390,000	2,934,000
3,079,000	2,542,000	1,887,000	1,475,000	419,000	379,000	284,000	348,000
931,000	869,000	658,000	698,000	667,000	498,000	587,000	740,000
4,226,000	3,283,000	2,354,000	1,614,000	1,425,000	1,425,000	1,425,000	1,544,000
10,220,000	7,859,000	5,571,000	3,063,000	1,466,000	1,118,000	94,000	302,000
57c	44c	31c	18c	9c	7c	1c	2c
1,988,000	567,000	(969,000)	(1,467,000)	(1,246,000)	(1,430,000)	(3,658,000)	(3,310,000)
11c	3c	(5c)	(9c)	(7c)	(9c)	(27c)	(24c)
70,531,000	75,184,000	47,119,000	32,867,000	30,000,000	30,000,000	30,000,000	30,000,000
1,666,000	1,438,000	1,662,000	4,117,000	2,616,000	9,104,000	13,419,000	15,416,000
3,685,000	2,955,000	3,117,000	2,431,000	2,128,000	1,053,000	1,545,000	3,016,000
2,636,000	2,914,000	1,448,000	1,675,000	887,000	580,000	546,000	833,000
(901,000)	30,451,000	20,790,000	(964,000)	4,931,000	9,931,000	—	—
22,724,000	20,510,000	19,895,000	17,899,000	18,891,000	20,137,000	15,209,000	18,545,000
17,791,029	17,791,029	17,791,029	16,791,029	16,791,029	16,791,029	13,707,504	13,707,504
6,240,371	5,400,259	4,134,824	2,408,635	1,458,874	1,250,255	810,304	978,522
12,635	6,167	4,081	3,455	605	—	—	—
57,970	73,005	56,272	52,954	—	—	—	—
2.36	2.30	2.22	2.32	2.40	2.33	2.26	2.35
14c	14c	13c	13c	15c	—	—	—
28.99	15.08	11.20	11.89	—	—	—	—
3,012,586	3,841,005	4,310,350	5,393,021	7,292,271	8,103,986	9,097,908	7,503,547
1,525,807	1,611,739	1,729,410	2,110,051	2,782,349	2,917,205	2,308,530	2,807,947
108	100	92	86	75	77	96	138

TRIAD OIL CO. LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

Years ended December 31, 1968 and 1967

	1968	1967
Production revenue	**$18,885,182**	$18,671,271
Investment income	**219,413**	149,701
	19,104,595	18,820,972
Deduct:		
Operating expenses	**3,521,343**	3,279,199
Administrative and general expenses	**818,542**	883,026
Interest on long term debt	**3,645,994**	3,967,184
	7,985,879	8,129,409
Earnings before the following deductions	**11,118,716**	10,691,563
Deduct:		
Depletion	**4,295,006**	4,498,070
Depreciation	**1,446,612**	1,318,493
Rentals on non-producing properties	**696,763**	625,614
Abandonments and exploration expenses	**1,674,237**	1,812,096
Debt discount and expense written off	**73,742**	86,662
Minority interest in earnings of subsidiary	–	60,273
	8,186,360	8,401,208
Net earnings for the year (Note 5)	**$ 2,932,356**	$ 2,290,355

(See accompanying notes)

CONSOLIDATED STATEMENT OF SOURCE and APPLICATION OF FUNDS

Years ended December 31, 1968 and 1967

	1968	1967
SOURCE OF FUNDS:		
Earnings, before depletion, depreciation and other charges	**$11,118,716**	$10,691,563
Long term borrowing	**750,000**	600,000
Reduction (increase) in investments and advances	**1,210,436**	(159,309)
	13,079,152	11,132,254
APPLICATION OF FUNDS:		
Increase in production and other equipment	**2,379,422**	1,393,620
Exploration and development expenses including rentals on non-producing properties	**2,772,507**	4,207,181
Acquisition of minority interest	**–**	2,485,743
Retirement of long term debt	**7,097,944**	7,019,355
	12,249,873	15,105,899
Increase in working capital for the year (decrease)	**$ 829,279**	$(3,973,645)

CONSOLIDATED STATEMENT OF DEFICIT

Years ended December 31, 1968 and 1967

	1968	1967
Deficit at beginning of year	**$19,924,690**	$22,362,302
Less:		
Net earnings for the year	**2,932,356**	2,290,355
Discount on purchase of 4¾% Notes	**130,880**	147,257
	3,063,236	2,437,612
Deficit at end of year	**$16,861,454**	$19,924,690

(See accompanying notes)

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1968 and 1967

ASSETS

	1968	1967
Current:		
Cash	$ **380,159**	$ 1,221,728
Short term investments at market which is lower than cost	**343,144**	55,080
Accounts receivable –		
Affiliates	**3,185,432**	1,749,329
Other	**1,961,387**	2,402,424
Supplies at cost and other prepaid expenses	**690,616**	661,745
	6,560,738	6,090,306
Investments and Advances:		
Shares in other companies at cost (Note 2)	**1,031,629**	2,107,924
Deposits and long term receivables	**334,995**	469,136
	1,366,624	2,577,060
Property, Plant and Equipment at Cost:		
Producing properties	**91,422,638**	91,239,740
Non-producing properties	**13,746,153**	14,205,880
Production and other equipment	**23,254,190**	21,132,973
	128,422,981	126,578,593
Less –		
Accumulated depletion	**32,495,412**	28,824,356
Accumulated depreciation	**10,234,744**	9,100,722
	42,730,156	37,925,078
	85,692,825	88,653,515
Other:		
Debt discount and financing costs less amounts written off	**129,247**	202,988
	$ 93,749,434	$ 97,523,869

LIABILITIES

	1968	1967
Current:		
Accounts payable and accrued liabilities . . .	**$ 1,986,403**	$ 3,043,142
Interest accrued on long term debt	**519,744**	602,027
Long term debt due within one year (Note 3) . .	**3,373,026**	4,752,851
Deferred production income (Note 4)	**2,160,000**	–
	8,039,173	8,398,020
Long Term Debt (Note 3)	**57,485,460**	63,964,284
Shareholders' Equity:		
Share capital –		
Authorized – 25,000,000 shares of no par value		
Issued – 17,791,029 shares	**45,086,255**	45,086,255
Deficit	**(16,861,454)**	(19,924,690)
	28,224,801	25,161,565

On behalf of the Board:

Director

Director.

(See accompanying notes)	**$93,749,434**	$97,523,869

Delivering supplies for foothills seismic work

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES

The consolidated financial statements include the accounts of Triad Oil Co. Ltd. and its wholly-owned subsidiaries. The excess of the consideration paid for the shares of purchased subsidiaries over the net book value of the related assets at dates of acquisition is attributable to producing properties and is included therein in the accompanying consolidated balance sheet.

It is the practice of the companies to provide for depletion of producing property costs on a unit of production method based on estimated reserves of oil and gas. Non-productive drilling, exploration and property costs are charged to operations at the time the projects are abandoned. Production and other equipment is being depreciated on a straight line basis over the estimated useful lives of the assets.

2. SHARES IN OTHER COMPANIES

The companies' investment in shares of other companies at December 31, 1968 consists of the following:

	Number of Shares	Cost	Quoted Market Value
British Columbia Oil Lands Ltd.	329,319	$ 740,968	$4,281,147
Other		290,661	Not Quoted
		$1,031,629	

Because of the number of shares involved, the market value of British Columbia Oil Lands Ltd. is not necessarily indicative of the amount that could be realized if this investment was sold.

3. LONG TERM DEBT

Details of the companies' long term debt are as follows:

	1968	1967
Triad Oil Co. Ltd. –		
4¾% Notes due September 15, 1971 subject to annual sinking fund payments of $2,143,000 ($9,686,000 held by an affiliate)	$19,285,000	$22,571,000
Bank loans secured by certain oil and gas properties, payable over a period of six years	4,772,325	5,786,825
Notes payable monthly to July 15, 1980 out of the proceeds of production from certain properties		
5¾% Series A Notes	4,017,916	2,665,240
6¼% Series B Notes (repayments commence 1971)	21,000,000	21,000,000
5% Loan payable	–	3,000,000
Accrued interest thereon	–	69,452
Subsidiaries –		
5½% Promissory Note payable $1,000,000 annually to an affiliate from 1969 to 1971 and the balance in 1972 and 1973	10,958,473	11,958,473
5¾% First Mortgage Bonds due 1971 subject to annual sinking fund payments	194,772	980,145
5% First Mortgage Bonds due 1982 subject to annual sinking fund payments of $55,000 in 1969 and declining amounts thereafter	630,000	686,000
	60,858,486	68,717,135
Included in current liabilities as due within one year	3,373,026	4,752,851
	$57,485,460	$63,964,284

In addition to the amount included in current liabilities shown above, it is estimated that repayments of the 5¾% Series A Notes of Triad Oil Co. Ltd. from 1969 production proceeds will amount to $1,030,000.

4. **DEFERRED PRODUCTION INCOME**

During the year a production payment, representing a portion of the companies' interests in future production from certain oil lands, was sold for $2,160,000. Income resulting from the sale has been deferred and will be reflected in income as the oil is produced and sold. It is expected that the production payment will be retired during 1969.

5. **INCOME TAXES**

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges to earnings. As a result, no income taxes are payable in respect of earnings reported for the year ended December 31, 1968, and at that date, accumulated expenditures of $49,900,000 were available to be carried forward and applied against future taxable income. For 1968, capital cost allowances claimed are not significantly different from depreciation recorded in the accounts.

The companies do not consider it appropriate to provide for income taxes deferred as a result of claiming for income tax purposes drilling, exploration and lease acquisition costs, in excess of the related charges to earnings and this view conforms with general practice in the oil and gas industry. This practice differs from the tax allocation recommendation of the Canadian Institute of Chartered Accountants that income tax be provided for on the basis of income reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of $1,485,000 ($1,450,000 in 1967) would have been provided, and net earnings for the year would have been reduced accordingly. The accumulated deferred income tax provisions covering the current and prior years would have amounted to $5,900,000 at December 31, 1968.

6. **STATUTORY INFORMATION**

The aggregate direct remuneration of the directors and senior officers of the company during 1968 amounted to $181,344.

AUDITORS' REPORT

To the Shareholders of
Triad Oil Co. Ltd.

We have examined the consolidated balance sheet of Triad Oil Co. Ltd. and subsidiary companies as at December 31, 1968 and the consolidated statements of earnings, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Triad Oil Co. Ltd. and subsidiary companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
February 28, 1969

CLARKSON, GORDON & CO.
Chartered Accountants.

TRIAD OIL CO. LTD.

An Alberta company incorporated October, 1951

HEAD OFFICE

535 - 7th Avenue S.W., Calgary 2, Alberta

SUBSIDIARY AND AFFILIATED COMPANIES

Triad Petroleum Development Ltd. – *incorporated under the Laws of Canada (100% owned)*

Triad Realties Ltd. – *incorporated under the Laws of the Province of Alberta (100% owned)*

Triad Oil Company of Canada – *incorporated under the Laws of the State of Delaware (100% owned)*

Triad Oil Manitoba Ltd. – *incorporated under the Laws of the Province of Manitoba (100% owned)*

British Columbia Oil Lands Ltd. – *incorporated under the Laws of the Province of British Columbia (34.8% owned by Triad Manitoba)*

TRANSFER AGENTS AND REGISTRARS

CANADA

Canada Permanent Trust Company
Calgary - Vancouver - Winnipeg - Montreal

The Canada Trust Company
Toronto

UNITED STATES

Morgan Guaranty Trust Company of New York
Transfer Agent
New York

The Bank of New York
Registrar
New York

AUDITORS

Clarkson, Gordon & Co.

STOCK EXCHANGE LISTINGS

Toronto - Montreal - Calgary - Vancouver

OFFICERS

D. F. MITCHELL
Chairman of the Board

J. H. PORTER
President

F. A. McKINNON
Vice-President and General Manager

E. W. BEST
Vice-President and Exploration Manager

J. I. RAWLINSON
Secretary-Treasurer and Administration Manager

K. T. ALLISON
Assistant Secretary-Treasurer and Controller

HEAD OFFICE

535 - 7th AVENUE SOUTH WEST
CALGARY, ALBERTA

INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 1968

TRIAD OIL CO. LTD.

TO THE SHAREHOLDERS:

The results of operations for the half year ended 30th June 1968 show further improvement in the Company's position.

Net earnings for the period were $1,232,111 as against $598,386 for the corresponding period last year. This increase was attributable to higher gas and sulphur sales and also to a lower debt servicing cost and reduced exploration writeoff. Whilst earnings for the full year are expected to show an improvement over those for 1967, the percentage increase achieved in the period under review will not be maintained owing to heavier exploration costs during the balance of 1968.

An active drilling program, involving participation in 40 wells, resulted in 9 oil wells and 9 gas wells. The sour gas discovery at Fox Creek, reported earlier this year, has since been confirmed as a major condensate and sulphur reserve. Formation of a unit and construction of a plant are now being discussed with other interested parties to permit commencement of a gas cycling operation late in 1969. This development will be an important new source of revenue for Triad.

Exploration continues in the general area of the small reef pools discovered last year at South Nevis and East Buffalo. Of the 3 wells drilled, one was successfully completed as a gas well and two were abandoned. Further exploratory wells are scheduled to be drilled later this year. Drilling results in the Chauvin area and at Sullivan Lake, following up the successful exploration wells drilled last year, have been encouraging.

Net production of crude oil and natural gas liquids was maintained at the 1967 level of some 16,000 barrels per day. Sales of natural gas averaged 43 million cubic feet per day (up 11%), and sales of sulphur averaged 176 long tons per day (up 14%) on the rates for the corresponding period last year.

Calgary, Alberta
August 21, 1968

J. H. PORTER
President

TRIAD OIL CO. LTD. (And Subsidiary Companies)

CONSOLIDATED STATEMENT OF EARNINGS

	Six months ended June 30 1968	1967
INCOME		
Production revenue	$9,345,132	$9,059,433
Investment income	66,505	94,174
	$9,411,637	$9,153,607
EXPENSES		
Lease operating expenses	$1,584,355	$1,481,457
Administrative and general expense	369,277	528,610
Interest on long term debt	1,853,789	2,004,732
	$3,807,421	$4,014,799
EARNINGS BEFORE THE FOLLOWING DEDUCTIONS	$5,604,216	$5,138,808
DEDUCT:		
Depletion	$2,180,063	$2,149,271
Depreciation	683,212	659,422
Rentals on non-producing properties	432,505	314,492
Abandonments and exploration expenses	1,032,994	1,305,680
Debt discount and expense written off	43,331	51,284
	$4,372,105	$4,480,149
EARNINGS BEFORE MINORITY INTEREST	$1,232,111	$ 658,659
Less minority interest in earnings of subsidiary	–	60,273
NET EARNINGS	$1,232,111	$ 598,386
Cash flow from operations per share	31c	29c
Net earnings per share	7c	3c

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Six months ended June 30 1968	1967
SOURCE OF FUNDS		
Earnings before depletion, depreciation and other charges	$5,604,216	$ 5,138,808
Long term borrowing	–	357,671
Sale of investments	471,573	(161,734)
	$6,075,789	$ 5,334,745
APPLICATION OF FUNDS		
Plant and equipment	$ 422,912	$ 665,854
Exploration and development	1,321,204	2,389,821
Retirement of long term debt	5,049,576	5,102,210
Redemption of preferred shares of Triad Oil Manitoba Ltd.	–	2,443,830
	$6,793,692	$10,601,715
Decrease in working capital for the period	$ 717,903	$ 5,266,970